

Message Text

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14

ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

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FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 5292

INFO USDOC WASHDC

DEPT OF TREASURY

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

UNCLAS ABU DHABI 3277

DEPT PASS DEPT OF LABOR

E.O. 11652: NA

TAGS: ETDR, EFIN, ELAB, BEXP, TC

SUBJ: SIGNIFICANT US TRADE LOSS FORESEEN AS RESULT OF RECENT

TAX RISE FOR AMERICANS OVERSEAS

1. SUMMARY: RECENT INCREASE IN TAX LIBILITIES FOR US
CITIZENS WORKING ABROAD HAS GENERATED CONSIDERABLE
CRITICISM AMONG AMERICAN RESIDENTS IN THE UNITED ARAB
EMIRATES. I AM CONVINCED THAT AN UNINTENDED CONSEQUENCE
OF THIS LEGISLATION WILL BE A LOSS OF POTENTIAL US EXPORTS
TO THE UAE IN THE NEXT YEAR AND A SIGNIFICANT LOSS OF
BUSINESS OPPORTUNITIES IN THE NEXT 2-5 YEAR TERM. IN
ADDITION, IT MEANS A LOSS OF DIRECT EMPLOYMENT OPPORTUNITIES

FOR AMERICANS TO WORK WITH US COMPANIES IN UAE AND
AN INDIRECT JOB LOSS IN THE US AS A RESULT OF REDUCED
US SHARE OF UAE MARKET FOR GOODS AND SERVICES. END
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SUMMARY.

2. MEMBERS OF THE AMERICAN BUSINESS COMMUNITY IN THE UAE HAVE EXPRESSED TO ME AND OTHER EMBASSY OFFICERS THEIR CONCERNS OVER THE IMPACT OF RECENT LEGISLATION RAISING TAX LIABILITIES OF US CITIZENS ABROAD. MOST EMPLOYERS HAVE HAD ARRANGEMENTS TO SHARE INDIVIDUAL TAX BURDEN OF THEIR AMERICAN EMPLOYEES. THEY POINT OUT THAT THIS CHANGE IN THE AFTER TAX INCOME MEANS THAT AMERICANS WHOSE LABOR WAS STILL COMPETITIVELY PRICED, VIS A VIS OTHER SKILLED WESTERNERS, ARE NOW PRICED OUT OF THE MARKET. AS A RESULT, BOTH US AND FOREIGN ENTERPRISES ARE REEVALUATING THEIR NEED FOR US CITIZEN SKILLED MANPOWER, INCLUDING EXECUTIVE LEVEL TALENT. SEVERAL IMPORTANT MULTINATIONAL FIRMS OPERATING IN THE UAE HAVE ALREADY DECIDED NOT TO RECRUIT ANY MORE AMERICANS BUT TO HIRE BRITISH OR OTHERS WHOSE COUNTRIES' TAX LAWS PERMIT THEM TO WORK OUTSIDE WITHOUT SUBJECTING THEIR EARNINGS TO TAX. WE HAVE ALSO BEEN MADE AWARE OF OIL FIELD SUPPLY FIRMS AND FINANCIAL INSTITUTIONS THAT HAVE DECIDED TO PHASE OUT RESIDENT US CITIZEN EMPLOYEES. AS A PART OF THE MOVEMENT IN THAT DIRECTION, SEVERAL OIL FIELD OPERATORS HERE HAVE RECENTLY GONE TO A 4 WEEK SHIFT PLAN IN WHICH THEIR EMPLOYEES SPEND 4 WEEKS AT THE OIL FIELD SITE AND ARE THEN FLOWN BACK TO THE STATES FOR 4 WEEKS.

3. THE OBVIOUS ADVERSE IMPACT OF THIS TAX RISE, AND PRESUMABLY ALREADY DISCOUNTED BY CONGRESS, IS ON THE US LABOR MARKET FOR HIGHLY SKILLED BLUE COLLAR AND PROFESSIONAL EXECUTIVE MANPOWER. WHILE THE NUMBERS IN THESE GROUPS ARE RELATIVELY SMALL IN UAE, THEY WILL ADD TO US UNEMPLOYMENT ROLLS AND VOCAL DISCONTENT. AT MOMENT, THERE ARE ABOUT 3,800 AMERICANS (INCLUDING DEPENDENTS) WHO RESIDE IN UAE. VIRTUALLY ALL AMERICAN PRINCIPALS ARE EMPLOYED AS MANAGERS OR AS HIGHLY SKILLED TECHNICIANS.

4. HOWEVER, THE REAL SIGNIFICANCE OF THIS LEGISLATION I BELIEVE IS ITS MEDIUM AND LONG-TERM IMPACT. WITH THE DISAPPEARANCE OF HIGH PROFILE AMERICANS, IMPLICIT (AND MORE OFTEN EXPLICIT) PREFERENCES FOR US TECH-
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NOLOGY AND PRODUCTS WILL DIMINISH. ALREADY SOME ARCHITECTURAL AND ENGINEERING FIRMS AND OIL FIELD MANAGEMENT CONSULTANTS HAVE TOLD US THAT THEY ARE NO LONGER RECRUITING IN US MARKET FOR NEW EMPLOYEES FOR NEW PROJECTS IN THE EMIRATES. IT IS A TRUTH WHICH SHOULD NEED NO RE-TELLING THAT PEOPLE BUY PRODUCTS WHICH THEY KNOW. THE RESULT WILL BE LOST BUSINESS OPPORTUNITIES FOR US OF CONSIDERABLE MAGNITUDE.

5. OUR EXPANDING AND FUTURE MARKETS IN THE NEWLY CAPITAL SURPLUS NATIONS, OF WHICH UAE IS A PRIME EXAMPLE, ARE CENTERED IN CERTAIN AREAS. SOME EXPORTS, CEREALS AND AUTOMOBILES FOR EXAMPLE, ARE NO LIKELY TO BE AFFECTED BY THE PRESENCE OF AMERICANS IN THE IMPORTING COUNTRY. HOWEVER, THE LEADING EDGE AND FUTURE BEST HOPE FOR EXPORTS TO CAPITAL SURPLUS AREAS IS IN THAT GRAY ZONE WHERE THE PROVISION OF SERVICES IS LIKELY TO DETERMINE THE SUBSEQUENT PURCHASE OF GOODS. A REDUCTION OF THE AMERICAN PRESENCE AT THE MANAGEMENT LEVEL OF THE SERVICE SECTOR WILL MAKE A CRUCIAL DIFFERENCE IN SOME IMPORTANT INSTANCES: THE DESIGN STAGE OF INFRASTRUCTURE WORK (AFFECTING INITIAL PURCHASES AND REPLACEMENT ORDERS), THE CONSULTANT'S RECOMMENDATIONS ABOUT EQUIPMENT TO BE USED TO EXPLOIT DIFFICULT UNDERWATER PETROLEUM FIELDS, THE INVESTMENT STRATEGIES FOLLOWED BY FINANCIAL INSTITUTIONS WHICH IMPACT ON PROCUREMENT FOR MAJOR PRODUCTS, ETC.

6. I BELIEVE THAT THIS TAX LEGISLATION STRIKES SEVERELY AND NEEDLESSLY AT OUR ECONOMIC INTERESTS. DIRECT EMPLOYMENT ABROAD OF US CITIZENS IN SERVICE SECTOR AND MANAGEMENT HAVE HELPED TO ORIENT UAE MARKET TO US CAPITAL EQUIPMENT MAKING UAE ONE OF MOST IMPORTANT MARKETS WE NOW HAVE IN ARAB WORLD. IN TURN THESE EXPORTS HAVE GENERATED INCREASED EMPLOYMENT IN THE US. SINCE WE ARE COMMITTED TO HIGH EMPLOYMENT AND HIGH EXPORT GOALS, IT IS FOOLHARDY TO DECIMATE OUR BEST SOLDIERS IN THE FIELD.

7. GIVEN OUR GROWING MARKET IN GULF REGION, THIS MESSAGE IS BEING ADDRESSED OTHER GULF POSTS FOR ANY UNCLASSIFIED

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COMMENTS THEY MAY WISH TO MAKE. IT IS OUR IMPRESSION THAT UAE SITUATION IS NOT UNIQUE.
DICKMAN

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